

**AUDITED FINANCIAL STATEMENTS
REQUIRED SUPPLEMENTAL INFORMATION
AND OTHER FINANCIAL INFORMATION**

**GOGEBIC-IRON WASTEWATER AUTHORITY
IRONWOOD, MICHIGAN**

June 30, 2004

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name GOGEBIC-IRON WASTEWATER AUTHORITY	County GOGEBIC
Audit Date JUNE 30, 2004	Opinion Date OCTOBER 1, 2004	Date Accountant Report Submitted to State: OCTOBER 22, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) JOKI, MAKELA & POLLACK, P.L.L.C.			
Street Address 301 N. SUFFOLK ST.		City IRONWOOD	State MI
Accountant Signature <i>Dean Beaudoin CPA</i>		ZIP 49938	

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JOKI, MAKELA & POLLACK, P.L.L.C.

**CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITOR'S REPORT

Chairman and Members of the Board of Trustees
Gogebic-Iron Wastewater Authority
Ironwood, Michigan

We have audited the accompanying basic financial statements of Gogebic-Iron Wastewater Authority as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of Gogebic-Iron Wastewater Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gogebic-Iron Wastewater Authority as of June 30, 2004, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, Gogebic-Iron Wastewater Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of June 30, 2004.

The management's discussion and analysis information on pages 5 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Gogebic-Iron Wastewater Authority taken as a whole. The accompanying Other Financial Information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Gogebic-Iron Wastewater Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the financial statements taken as a whole.

Joki, Makela & Pollack, PLLC

Certified Public Accountants

Ironwood, Michigan
October 1, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOGEBIC-IRON WASTEWATER AUTHORITY

Year ended June 30, 2004

Management's Discussion and Analysis

This section of the Gogebic-Iron Wastewater Authority's annual financial report presents management's discussion and analysis of the Authority's financial performance during the year ended June 30, 2004. It is to be read in conjunction with the Authority's financial statements, which immediately follow. Because this is the first year of implementation of GASB Statement No. 34, prior-year data is not available but will be provided in subsequent years for comparative purposes. In order to address the needs of external parties that read the Authority's financial statements, in accordance with reporting standards, the Authority presents fund financial statements.

Basic Financial Statements

The basic financial statements include the statement of net assets, statement of revenues, expenses and changes in net assets and statement of cash flows. The basic financial statements are prepared using the accrual basis of accounting which is the accounting basis used by private sector businesses. The statement of net assets includes all of the Authority's assets and liabilities. All revenues and expenses are reported for in the statement of revenues, expenses and changes in net assets and statement of cash flows.

The Authority consists of both the Gogebic-Iron Wastewater Authority and the Gogebic-Iron Wastewater Board. The Authority owns the physical properties, is responsible for the related indebtedness and is responsible for raising monies from the participating units to cover debt principal and interest payments plus monies with which to fund operations of the system. The system is operated by the Gogebic-Iron Wastewater Board (the Board), an independent joint board comprised of members from each of the constituent municipalities participating in the sewage disposal system. The Board's source of revenues is an operating fee received from the Authority from which the Board pays the operating costs.

The incorporating municipalities creating the Authority were City of Ironwood, Township of Erwin and Charter Township of Ironwood. The Board consists of City of Ironwood, Charter Township of Ironwood and City of Hurley, Wisconsin.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Financial Information

Condensed financial information follows:

(1) Statement of Net Assets

ASSETS	
Current assets	\$ 127,113
Capital assets	14,608,557
Restricted assets	2,603,331
Net other assets	<u>485,115</u>
TOTAL ASSETS	<u>\$ 17,824,116</u>

LIABILITIES	
Current liabilities	\$ 261,433
Long-term liabilities, net of current portion	<u>4,628,900</u>
TOTAL LIABILITIES	<u>\$ 4,890,333</u>

NET ASSETS	
Invested in capital assets	\$ 9,903,557
Restricted	2,603,331
Unrestricted	<u>426,895</u>
TOTAL NET ASSETS	<u>\$ 12,933,783</u>

(2) Statement of Revenues, Expenses and Changes in Net Assets

Operating revenues	\$ 2,059,260
Operating expenses	<u>2,341,165</u>
OPERATING LOSS	\$ (281,905)
Nonoperating expenses	<u>222,912</u>
DECREASE IN NETS ASSETS	\$ (504,817)
Net assets at beginning of year	<u>13,438,600</u>
NET ASSETS AT END OF YEAR	<u>\$ 12,933,783</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Management's Analysis

The Authority is funded by sewage treatment charges to participating municipalities.

The difference between the Authority's total assets and total liabilities is labeled as net assets. The difference is similar to the total owners' equity presented by a commercial enterprise. As shown above, net assets consists of \$9,903,557 invested in capital assets, \$2,603,331 restricted and \$426,895 unrestricted. Net assets decreased during the year by \$504,817. However, included as an operating expense for the year was depreciation expense of \$798,137. Net of depreciation expense, net assets increased by \$293,320.

Expenses for the year ended June 30, 2004, increased over the prior year. The largest increases were in the categories of wages, health benefits and repairs.

Capital Assets

The Authority purchased equipment costing \$103,873 during the year ended June 30, 2004. Total capital assets at June 30, 2004, net of allowances for depreciation were \$14,608,557.

Debt

The Authority had outstanding long-term debt at June 30, 2004 of \$4,705,000, consisting of two separate issues of revenue bonds.

Future Considerations

The Authority continues to deal with sanitary sewage overflow (SSO) issues. The total cost to control SSO's have yet to be determined as specific solutions are not currently known. See Note J in the notes to financial statements for further discussion of the SSO issues.

The Authority has two employees who will retire during the year ending June 30, 2005. These employees will be replaced by new employees. Other than changes in pay scales, the Authority does not foresee any predictable changes in operating revenues or expenses from the year ended June 30, 2004.

Contacting Gogebic-Iron Wastewater Authority

Any questions can be addressed or additional information obtained by, contacting the Authority's office at 700 West Cloverland Drive, Ironwood, MI 49938 or calling (906) 932-5322.

BASIC
FINANCIAL
STATEMENTS

COMBINED STATEMENT

GOGEBIC-IRON

June 30,

	<u>Gogebic-Iron Wastewater</u>		
	<u>Authority</u>	<u>Board</u>	<u>Totals</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 757	\$ 70,383	\$ 71,140
Trade accounts receivable	27,826		27,826
Prepaid expenses		28,147	28,147
Internal balances	<u>(53,936)</u>	<u>53,936</u>	
TOTAL CURRENT ASSETS	\$ (25,353)	\$ 152,466	\$ 127,113
CAPITAL ASSETS			
Property, plant and equipment	\$ 28,125,977		\$ 28,125,977
Less allowances for depreciation	<u>13,517,420</u>		<u>13,517,420</u>
	\$ 14,608,557		\$ 14,608,557
RESTRICTED ASSETS			
Cash and cash equivalents	\$ 1,090,606		\$ 1,090,606
Investments	<u>1,512,725</u>		<u>1,512,725</u>
	\$ 2,603,331		\$ 2,603,331
OTHER			
Deferred loan costs, less \$63,120 amortization	\$ 481,291		\$ 481,291
Bond discount, less \$501 amortization	<u>3,824</u>		<u>3,824</u>
	\$ 485,115		\$ 485,115
TOTAL ASSETS	\$ <u>17,671,650</u>	\$ <u>152,466</u>	\$ <u>17,824,116</u>

OF NET ASSETS

WASTEWATER AUTHORITY

2004

	<u>Gogebic-Iron Wastewater</u>		
	Authority	Board	Totals
LIABILITIES			
CURRENT LIABILITIES			
Trade accounts payable	\$ 15,411	\$ 18,578	\$ 33,989
Accrued vacation pay		17,905	17,905
Payroll and related withholdings		14,948	14,948
Accrued interest	17,456		17,456
Current maturities on long-term debt	<u>140,000</u>	<u>37,135</u>	<u>177,135</u>
TOTAL CURRENT LIABILITIES	\$ 172,867	\$ 88,566	\$ 261,433
LONG-TERM DEBT			
Revenue bonds payable, less current portion	\$ 4,565,000		\$ 4,565,000
Accrued sick leave, less current portion		<u>\$ 63,900</u>	<u>63,900</u>
	<u>\$ 4,565,000</u>	<u>\$ 63,900</u>	<u>\$ 4,628,900</u>
TOTAL LIABILITIES	\$ <u>4,737,867</u>	\$ <u>152,466</u>	\$ <u>4,890,333</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 9,903,557		\$ 9,903,557
Restricted	2,603,331		2,603,331
Unrestricted	<u>426,895</u>		<u>426,895</u>
TOTAL NET ASSETS	\$ <u>12,933,783</u>		\$ <u>12,933,783</u>

The accompanying notes are an integral part of the
financial statements.

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

GOGEBIC-IRON WASTEWATER AUTHORITY

Year ended June 30, 2004

	Gogebic-Iron Wastewater		
	Authority	Board	Totals
Operating revenues:			
Sewage treatment charges:			
Participating municipalities	\$ 1,088,295		\$ 1,088,295
Others	266,502		266,502
Operating fee		\$ 704,171	704,171
Other	292		292
	<u>\$ 1,355,089</u>	<u>\$ 704,171</u>	<u>\$ 2,059,260</u>
Operating expenses:			
Operating fee charged by Gogebic-Iron			
Wastewater Board	\$ 704,171		\$ 704,171
Provision for depreciation	798,137		798,137
Employee compensation		\$ 508,178	508,178
Utilities and heat		81,233	81,233
Other	134,604	114,842	249,446
	<u>\$ 1,636,912</u>	<u>\$ 704,253</u>	<u>\$ 2,341,165</u>
OPERATING LOSS	\$ (281,823)	\$ (82)	\$ (281,905)
Nonoperating revenues (expenses):			
Net decrease in the fair value of investments	\$ (1,364)		\$ (1,364)
Interest charges and loan fee amortization,			
net of \$21,347 interest earned	(218,743)	\$ 82	(218,661)
Loss on disposal of equipment	(2,887)		(2,887)
	<u>\$ (222,994)</u>	<u>\$ 82</u>	<u>\$ (222,912)</u>
DECREASE IN NET ASSETS	\$ (504,817)	\$ 0	\$ (504,817)
Net assets at July 1, 2003	<u>13,438,600</u>	<u>0</u>	<u>13,438,600</u>
NET ASSETS AT JUNE 30, 2004	<u>\$ 12,933,783</u>	<u>\$ 0</u>	<u>\$ 12,933,783</u>

The accompanying notes are an integral part of the financial statements.

COMBINED STATEMENT OF CASH FLOWS
GOGEBIC-IRON WASTEWATER AUTHORITY

Year ended June 30, 2004

	<u>Gogebic-Iron Wastewater</u>		
	<u>Authority</u>	<u>Board</u>	<u>Totals</u>
Cash flows from operating activities:			
Cash received from customers	\$ 1,350,902	\$ 654,675	\$ 2,005,577
Cash paid to suppliers and employees for goods and services	<u>(799,420)</u>	<u>(677,568)</u>	<u>(1,476,988)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 551,482	\$ (22,893)	\$ 528,589
Cash flows from capital and related financing activities:			
Refund of bond issuance costs	\$ 6,739		\$ 6,739
Acquisition of capital assets	(72,148)		(72,148)
Principal paid on revenue bonds	(135,000)		(135,000)
Interest paid on revenue bonds	<u>(216,692)</u>		<u>(216,692)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (417,101)		\$ (417,101)
Cash flows from investing activities:			
Interest earned on bank deposits	\$ 21,347	\$ 82	\$ 21,429
Purchases of investments	(1,412,457)		(1,412,457)
Proceeds from sale of certificates of deposit	<u>291,985</u>		<u>291,985</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	\$ (1,099,125)	\$ 82	\$ (1,099,043)
NET DECREASE IN CASH	\$ (964,744)	\$ (22,811)	\$ (987,555)
Cash and cash equivalents at July 1, 2003	<u>2,056,107</u>	<u>93,194</u>	<u>2,149,301</u>
CASH AND CASH EQUIVALENTS AT JUNE 30, 2004	<u>\$ 1,091,363</u>	<u>\$ 70,383</u>	<u>\$ 1,161,746</u>

COMBINED STATEMENT OF CASH FLOWS (CONTINUED)

	<u>Gogebic-Iron Wastewater</u>		
	<u>Authority</u>	<u>Board</u>	<u>Totals</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:			
Operating loss	\$ (281,823)	\$ (82)	\$ (281,905)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Depreciation	\$ 798,137		\$ 798,137
(Increase) decrease in:			
Trade accounts receivable	(4,187)		(4,187)
Due to/from Authority/Board	49,496	\$ (49,496)	
Prepaid expenses		13,947	13,947
Increase (decrease) in:			
Accounts payable	(10,141)	8,995	(1,146)
Payroll and related items		1,740	1,740
Accrued sick leave		2,003	2,003
Total adjustments	\$ 833,305	\$ (22,811)	\$ 810,494
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 551,482</u>	<u>\$ (22,893)</u>	<u>\$ 528,589</u>

The accompanying notes are an integral part of the financial statements.

NOTES
TO
FINANCIAL
STATEMENTS

NOTES TO FINANCIAL STATEMENTS

GOGEBIC-IRON WASTEWATER AUTHORITY

June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Operations

Gogebic-Iron Wastewater Authority (the Authority) was formed to acquire and operate a sewage disposal system in accordance with Act 233, Public Acts of Michigan, 1955, as amended, serving the Ironwood, Michigan and Hurley, Wisconsin, areas. The Authority owns the physical properties, is responsible for the related indebtedness and is responsible for raising monies from the participating units to cover debt principal and interest payments plus monies with which to fund operations of the system. The system is operated by the Gogebic-Iron Wastewater Board (the Board), an independent joint board comprised of members from each of the constituent municipalities participating in the sewage disposal system. The Board's source of revenues is an operating fee received from the Authority from which the Board pays the operating costs.

The incorporating municipalities creating the Authority are City of Ironwood, Township of Erwin and Charter Township of Ironwood. The Board consists of City of Ironwood, Charter Township of Ironwood and City of Hurley, Wisconsin.

Service charges for sewage treatment and disposal services charged by the Authority are set forth in a regional user charge system adopted by the participants in connection with the Federal grant received to help finance construction of the facility. Substantially all of the Authority's revenues are derived from charges to the municipalities referred to above, and credit is extended to them and to private waste haulers. The participating municipalities have an opportunity to submit recommendations prior to final adoption of annual operating budgets of the Authority and the Board.

Each participating municipality is an owner in common of an undivided interest in the facility. Each interest will be determined by its capacity share in the facility. When all revenue bonds issued in connection with the project (see Note E below) are paid in full, title to the treatment facility will pass from the Authority to the Board and title to the collection system will pass to the municipality in which the system is located.

Basis of Presentation

The Authority, because it is the organization responsible for physical properties, significant indebtedness and collections from customers, is considered the primary reporting organization for financial-statement purposes. The Authority is considered to have significant oversight responsibility over the Board, and further, the Authority has a special financing relationship with the Board. For these reasons, the Board, even though a separate legal entity, is considered as a part of the Authority for financial-reporting purposes in accordance with the provisions of the Governmental Accounting Standards Board (GASB).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting and Measurement Focus

The accrual basis of accounting and the flow of all economic resources (measurement focus) are followed. This basis of accounting and measurement focus emphasizes the measurement of net income similar to the approach used by commercial enterprises, and revenues are recorded when earned and expenses are recorded when incurred. Under this basis of accounting and measurement focus, the Authority applies (a) all GASB pronouncements and (b) FASB Statements and Interpretations, APB Opinions and Accountants Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. The Authority has not adopted GASB Statement No. 20.

Cash and Cash Equivalents

Cash, as used in the Statement of Cash Flows, includes cash on hand and in bank and all cash equivalents with a maturity of three months or less.

Accounts Receivable

Accounts receivable included in current assets consist of receivables from private waste haulers.

Bad debts are accounted for using the direct write-off method. The expense is recognized only when a specific account is determined to be uncollectible. The effects of using this method approximate those of the allowance method.

Capital Assets

Items capitalized as part of property, plant and equipment, including interest during the construction period, are stated at cost.

Maintenance and Repairs

Repairs to machinery and equipment which materially extend the useful lives are capitalized. Other repair and maintenance costs are expensed as incurred.

Depreciation

Depreciation is determined by use of the straight-line method using estimated useful lives of 40 years for buildings and sewers and 5 to 30 years for equipment.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Loan Costs

Deferred loan costs consist of various bond issuance costs incurred in connection with the revenue bonds referred to in Note E below and deferred loss on advance refunding of old debt. These costs are being amortized over the period of the bonds by charges to operations.

Bond Discount

Bond discount is the difference between the par value of the bonds and the actual proceeds from the bond issuance referred to in Note E below. This discount is being amortized over the period of the bonds by charges to operations.

Investment in Capital Assets, Net of Related Debt

This is the portion of net assets of the Authority that consists of capital assets, net of accumulated depreciation and reduced by long-term liabilities for revenue bonds attributable to the acquisition, construction or improvement of those assets.

Restricted Net Assets

Net assets are restricted when there are constraints placed on their use by external parties or by statute.

Unrestricted Net Assets

Net assets not meeting either criteria above are considered unrestricted.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Change

Effective July 1, 2003, the Authority implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (GASB No. 34). Significant changes to the Authority’s financial statements as a result of GASB No. 34 are as follows:

Management Discussion and Analysis – provides analysis of the Authority’s overall financial position and results of operations as reported by the Authority’s management.

Depreciation – is accounted for as an operating expense. Previously, depreciation on assets acquired by grants was accounted for as a reduction of contributed capital rather than as a decrease in retained earnings.

Capital Contributions – are accounted for as a revenue of the Authority. Previously, capital contributions were accounted for as an increase of Fund Equity.

Net Assets – are accounted for as one of the following three categories: invested in capital assets, restricted and unrestricted. Previously, fund equity was accounted for as contributed capital and retained earnings.

NOTE B – CASH, CASH EQUIVALENTS AND INVESTMENTS

Deposits were made in accordance with State of Michigan statutes and under authorization of the Board of Trustees. The Board of Trustees authorizes cash to be deposited in banks located within the State of Michigan which are insured by Federal Deposit Insurance Corporation or its successor and in United States government obligations, or obligations the principal of and interest on which is fully guaranteed by the United States government and in other instruments as permitted by PA 20 of 1943, as amended. Cash and cash equivalents are carried at cost plus accrued interest. Investments are carried at fair market value. All investments consist of certificates of deposit, government securities and corporate fixed income securities. The amount displayed on the Balance Sheet as “Cash and cash equivalents and investments” consisted of:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE B – CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Cash and cash equivalents:	
Cash on hand and in transit	\$ 125
Deposits in demand deposit accounts in a local bank	40,347
Uninsured money market mutual funds	<u>1,121,274</u>
	\$ 1,161,746
Investments:	
Insured certificates of deposit	\$ 100,268
Government securities	824,128
Corporate fixed income securities	<u>588,329</u>
	\$ <u>1,512,725</u>
	\$ <u>2,674,471</u>

The Authority's investments are categorized to give an indication of the level of risk assumed by the Authority at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the Agent. All of the Authority's investments in government securities and corporate fund income securities are categorized as Category 1 investments.

NOTE C – CAPITAL ASSETS

A summary of changes in capital assets and related depreciation follows:

	Balance at July 1, <u>2003</u>	<u>Additions</u>	<u>Deductions</u>	Balance at June 30, <u>2004</u>
Building and structures	\$ 13,618,934	\$ 37,637		\$ 13,656,571
Sewers	9,736,644			9,736,644
Equipment	<u>4,690,825</u>	<u>66,236</u>	\$ <u>24,299</u>	<u>4,732,762</u>
	\$ 28,046,403	\$ 103,873	\$ 24,299	\$ 28,125,977
Less allowances for depreciation	<u>12,740,695</u>	<u>798,137</u>	<u>21,412</u>	<u>13,517,420</u>
NET CARRYING AMOUNT	\$ <u>15,305,708</u>	\$ <u>(694,264)</u>	\$ <u>2,887</u>	\$ <u>14,608,557</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE D – RESTRICTED ASSETS

The Authority has four restricted bank accounts. Three are restricted by the bond ordinance and one is restricted by action of the Authority Board of Trustees.

The bond ordinance requires that monthly deposits be made into the Bond and Interest Redemption Account sufficient to pay the next interest and principal payment. The Bond Reserve Account is to be used to pay any delinquent bond payments. The Equipment Replacement Account is to be used for repairs and replacements to the facility.

The Board of Trustees has established a separate bank account for revenue received from liquid waste haulers, to which monies use are restricted by the Board. This account has been labeled as a Special Purpose Account.

Restricted accounts with required funding levels are as follows at June 30, 2004:

	<u>Bond and Interest Redemption</u>	<u>Bond Reserve</u>	<u>Equipment Replacement</u>	<u>Special Purpose</u>
Required reserve at June 30, 2004	\$ 89,793	\$ 376,756	\$ 0	\$ 0
Actual balance at June 30, 2004	151,195	437,565	899,172	1,115,399

NOTE E – REVENUE BONDS PAYABLE

Changes in revenue bonds payable are summarized as follows:

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2004</u>
1995 Series Bonds	\$ 215,000		\$ 105,000	\$ 110,000
2001 Series Bonds	<u>4,625,000</u>	<u>\$ 0</u>	<u>30,000</u>	<u>4,595,000</u>
	<u>\$ 4,840,000</u>	<u>\$ 0</u>	<u>\$ 135,000</u>	<u>\$ 4,705,000</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE E – REVENUE BONDS PAYABLE (CONTINUED)

The aggregate amounts of long-term principal and interest maturities for the next five years and to maturity follows:

<u>Year ending</u> <u>June 30,</u>	
2005	\$ 350,040
2006	349,264
2007	354,195
2008	353,483
2009	352,183
2010-2014	1,751,584
2015-2019	1,768,337
2020-2024	1,771,389
2025	<u>363,875</u>
	<u>\$ 7,414,350</u>

1995 Revenue Bonds

On May 3, 1995, the Authority refunded \$4,932,945 remaining outstanding FmHA bonds by issuing \$5,195,000 Gogebic-Iron Wastewater Authority Wastewater Treatment System Revenue Refunding Bonds 1995 Series. The 1995 Series bonds have principal payments due each January 1 and interest is due each January 1 and July 1. Interest rates vary from 4.45% to 6.05%. These bonds are in denominations of \$5,000. Principal and interest are collateralized by and payable from net revenues of the wastewater treatment system. The payment of the principal and interest are insured by an insurance company. Bonds maturing in the years 2001 to 2005 are not subject to redemption prior to maturity. On October 16, 2001, the Authority issued bonds, par value \$4,685,000, with an in-substance defeasance (refunding of old debt).

Debt service charges to maturity on the outstanding bonds are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	<u>\$ 110,000</u>	<u>\$ 2,970</u>	<u>\$ 112,970</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE E – REVENUE BONDS PAYABLE (CONTINUED)

2001 Revenue Bonds

On October 16, 2001, the Authority advance refunded \$4,350,000 of the 1995 series bonds by issuing \$4,685,000 Gogebic-Iron Wastewater Authority Wastewater Treatment System Revenue Refunding Bonds 2001 Series. The 2001 Series bonds have principal payments due each December 1 and interest is due each December 1 and June 1. Interest rates vary from 3.00% to 5.00%. These bonds are in denominations of \$5,000. Principal and interest are collateralized by and payable from net revenues of the wastewater treatment system. The payment of the principal and interest are insured by an insurance company. Bonds maturing in years 2002 to 2011 are not subject to redemption prior to maturity.

Debt service charges to maturity on the outstanding bonds are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 30,000	\$ 207,070	\$ 237,070
2006	145,000	204,264	349,264
2007	155,000	199,195	354,195
2008	160,000	193,483	353,483
2009	165,000	187,183	352,183
2010	170,000	180,398	350,398
2011	175,000	173,281	348,281
2012	185,000	165,719	350,719
2013	195,000	157,741	352,741
2014	200,000	149,445	349,445
2015	215,000	140,465	355,465
2016	220,000	130,785	350,785
2017	235,000	120,430	355,430
2018	245,000	109,267	354,267
2019	255,000	97,390	352,390
2020	270,000	84,722	354,722
2021	280,000	71,315	351,315
2022	295,000	57,227	352,227
2023	315,000	42,125	357,125
2024	330,000	26,000	356,000
2025	<u>355,000</u>	<u>8,875</u>	<u>363,875</u>
	<u>\$ 4,595,000</u>	<u>\$ 2,706,380</u>	<u>\$ 7,301,380</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F - DEFINED BENEFIT PENSION PLAN

Plan Description

The Board's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The Plan is affiliated with the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer pension plan administered by the Gabriel, Roeder, Smith & Company. Act No. 427 of the Public Acts of 1984, as amended, and the Constitution of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; for the Plan, that authority rests with the Board. The Gabriel, Roeder, Smith & Company issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Gabriel, Roeder, Smith & Company, One Towne Square, Suite 800, Southfield, Michigan 48076 or by calling (248) 799-9000.

Funding Policy

Plan members are required to contribute 6.1% of their annual covered salary. The Board is required to contribute at an actuarially determined rate; the current rate is 14.3% of annual covered payroll. The contribution requirements of plan members and the Board are established and may be amended by the MERS Board of Trustees.

Annual Pension Cost

For the year ended June 30, 2004, the Board's annual pension cost of \$45,191 for the Plan was equal to the Board's required and actual contributions. The required contribution was determined as part of the December 31, 2001, actuarial valuation using the entry age normal funding method. The actuarial assumptions included (a) 8% investment rate of return (net of administrative expenses), (b) projected salary increases of 4.5% per year, additional projected salary increases ranging from 0.0% to 4.16% per year and (c) 2.5% per year cost-of-living adjustments. The actuarial value of the Plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The Plan's unfunded actuarial accrued liability is being amortized by level percent of payroll contributions. The amortization period at December 31, 2003, was 30 years.

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2002	\$31,743	100 %	-0-
June 30, 2003	45,450	100	-0-
June 30, 2004	45,191	100	-0-

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F - DEFINED BENEFIT PENSION PLAN (CONTINUED)

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress for the Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) --Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
12/31/01	\$693,868	\$ 984,201	\$ 290,333	71 %	\$ 297,705	98 %
12/31/02	772,166	1,246,946	474,780	62	305,975	155
12/31/03	893,573	1,363,628	470,055	66	318,680	148

NOTE G - SIMPLIFIED EMPLOYEE PENSION PLAN

All employees of the Authority are covered by a simplified employee pension plan administered by Edward Jones & Company. The Plan is a simplified employee pension plan covering all employees who have performed services for the Authority in at least two of the immediately preceding five years.

Pursuant to terms of the current union contract, the Authority is required to contribute \$20,000 annually to the Plan. Employees do not make contributions to the Plan. The Authority's payroll for employees covered by the Plan for the year ended June 30, 2004, was \$318,680. There were no wages paid to employees not covered by the Plan. All participants are fully vested immediately. Contributions to the Plan become the sole property of the participants. All contributions are invested for the participants in up to three of nineteen available mutual funds, at the discretion of each participant.

During the year ended June 30, 2004, the Authority made contributions to the Plan of \$20,000.

NOTE H - ACCUMULATED ABSENCES

Under a union contract negotiated with employees, individual employees have a vested right to receive payments for unused sick, personal and vacation leave. The dollar amount of these vested rights, which is recorded in the financial statements as a liability as of June 30, 2004, is \$17,905 for vacation leave and \$101,035 for sick leave.

Following is a summary of employment policies related to accumulated absences:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - ACCUMULATED ABSENCES (CONTINUED)

Sick Leave

Sick leave is earned thirteen days for each completed year of service and may generally be accumulated up to 1,600 hours.

Employees receive cash payment upon retirement of 100 percent of accumulated sick days at current hourly rates of pay with an 800-hour maximum payout for hourly employees and 960-hour maximum for salaried employees.

Vacation Leave

Vacation leave is earned in varying amounts depending upon years of service and may generally be accumulated up to 30 days. Upon termination, employees receive cash payment for all unused vacation leave at current hourly rates of pay.

NOTE I - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries. The Authority has obtained coverage from commercial insurance companies. The Authority has comprehensive general liability coverage of \$5,000,000 per occurrence, with no deductible amount, and wrongful acts coverage of \$5,000,000 per occurrence, with no deductible amount. The Authority carries commercial insurance for all other risks of loss, including workers' compensation and employee health and accident insurance.

The Authority's liabilities for its share of losses are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities can include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. The Authority estimates that the potential unpaid and unreported claims do not substantially exceed the amount of deductibles.

Management estimates that the amount of actual or potential claims against the Authority as of June 30, 2004, will not materially affect the financial condition of the Authority. Therefore, the financial statements contain no provision for estimated claims. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE J – SANITARY SEWAGE OVERFLOW (SSO) ISSUE

In June 2002, the Authority received a draft of an Administrative Consent Order (ACO) issued by the Michigan Department of Environmental Quality. This ACO addresses the illegal discharges that occur when the Authority experiences high wastewater flows due to the excessive inflow and infiltration of clearwater during periods of rainfall or snowmelt. The State required the Authority to submit a written plan by December 20, 2002, explaining how the Authority will correct the SSO problem. In July 2002, the Authority engaged an engineering firm to study the sanitary sewer collection system. At June 30, 2004, the engineering firm continued to study the problems. The State requires the Authority to submit a written report detailing the results of this study by December 19, 2004, explaining how the Authority will correct the SSO problem. The total cost to control SSOs have yet to be determined as specific solutions are not currently known.

OTHER
FINANCIAL
INFORMATION

DETAIL OF OPERATING EXPENSES
GOGEBIC-IRON WASTEWATER AUTHORITY

Year ended June 30, 2004

	<u>Gogebic-Iron Wastewater</u>	
	<u>Authority</u>	<u>Board</u>
Operating fee charged by Gogebic-Iron Wastewater Board	\$ 704,171	
Provision for depreciation	798,137	
Employee compensation:		
Salaries and wages		\$ 318,680
Payroll taxes		24,599
Group insurance		96,801
Sick leave		1,444
Workers' compensation insurance		1,463
Pension		45,191
SEP/IRA		20,000
Utilities and heat		81,233
Other:		
Chemicals		14,933
Lab supplies and expense		5,076
Safety supplies		1,803
Gas and oil		5,030
Insurance	3,300	34,540
Maintenance	24,090	30,154
Office supplies		4,709
Professional services	105,558	593
Telephone		4,047
Travel and education		5,974
Environmental fees		6,650
Miscellaneous	<u>1,656</u>	<u>1,333</u>
	<u>\$ 1,636,912</u>	<u>\$ 704,253</u>